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INTRODUCTION

The Office of Internal Audit performed an audit of Antrim/Kalkaska County FIA for the period January 1, 2003 through February 27, 2004. The objectives of our audit were to determine if internal controls in place in the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Antrim/Kalkaska County FIA had 41 full time equated positions (FTE's) at the time of our review. Antrim/Kalkaska County FIA provided assistance to an average 2,541 customers per month during FY 2002, with total assistance payments of \$2,693,807 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Antrim/Kalkaska County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Cash Receipts

Cash Disbursements

State Emergency Relief

Safe and Controlled Documents

General Ledger

CIMS/ASSIST/LASR Controls

Customer Processing

Payroll and Timekeeping

Procurement Cards

Direct Supportive Services

Balance Sheet

Children's Protective Services

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Antrim/Kalkaska County FIA's internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found instances of noncompliance with FIA policies and procedures and weaknesses in internal controls in other areas, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Antrim/Kalkaska County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated March 31, 2004 that they are in general agreement with the findings and recommendations in this report.

FINDINGS AND RECOMMENDATIONS

Antrim County Findings

Cash Receipts

Mail Opening

1. Antrim County FIA had one person pick the mail up from the post office in an open container and one person open the mail. Accounting Manual Items 430 and 431 state that two people should work together opening the mail, one opening, and one logging any negotiable items received. The Primary Internal Control Criteria for FIA Local/District Operations indicates that either two people should pick up the mail from the post office in an unsecured container or one person should pick up the mail in a locked mail bag. Following proper procedures for picking up and opening the mail helps to ensure that all negotiable items received by the local office are properly recorded in the local office records.

WE RECOMMEND that Antrim County FIA have two people pick up the mail at the post office or one person pick the mail up in a locked bag; and that Antrim County FIA have two people open the mail together.

Safe and Controlled Documents

Items Not Controlled

2. Antrim County FIA did not properly control the gas gift cards or bus passes. The local office did not prepare the Controlled Document Log (FIA-4070) or the Monthly Inventory Reconciliation (FIA-4351) for gas gift cards. They also did not prepare the FIA-4070 for bus passes. Accounting Manual Item 403 states that the local office must complete the Controlled Document Log (FIA-4070) and Monthly Inventory Reconciliation (FIA-4351) on an ongoing basis for all controlled documents. Maintaining an accurate inventory of gift cards and bus passes helps to ensure that all gift cards and bus passes are properly accounted for.

WE RECOMMEND that Antrim County FIA inventory all their gas gift cards and bus passes, and keep an up to date Controlled Document Log and Monthly Controlled Document Inventory and Reconciliation for each item.

NOTE: Corrective action taken while auditor was on site

CIMS/ASSIST/LASR Security

CIMS Security Agreements

3. Antrim County FIA did not have accurate, up-to-date CIMS Security Agreements (FIA-3974A) on file for 5 out of 23 employees who access the Client Information Management System (CIMS). The status indicated on four of the CIMS Security Agreements was different than the status that was listed on the PF-011Report, and one Security Agreement was not signed by the employee.

WE RECOMMEND that the Antrim County FIA ensure that all employees who have access to CIMS have an accurate, up-to-date Security Agreement on file.

NOTE: Corrective action taken while auditor was on site

ASSIST Job Types

4. Antrim County FIA had one FIM (Family Independence Manager) and the ITT who had registration and file maintenance capabilities on ASSIST. This combination of Job Types would allow the FIM and the ITT to register a case, and do file maintenance on that case. Also, there is no independent review of transactions listed on the MA-010 as performed by the FIM and ITT. Internal Control Criteria page 13 states that no one person should have 240/270/280 and 360 or 370 job types. Assigning staff ASSIST job types that allow them to register and open cases on ASSIST does not allow for the proper separation of duties.

WE RECOMMEND that Antrim County FIA assign the FIM and the ITT Job Types that do not allow them to register and perform file maintenance on ASSIST, or have an independent person reconcile all transactions processed by the FIM and the ITT.

PF-011 and VB9-554 Report

5. Antrim County FIA did not reconcile the Operator Identification Report Number PF-011 to the CIMS Security Agreements (FIA-3974A) or the ASSIST User Report (VB9-554) to the ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721), as required by L-Letter 97-063 and L-Letter L-97-156 respectively. This reconciliation is necessary to ensure that all employees who have access to CIMS and ASSIST are properly authorized for their assigned job types. We found 1 employee who had a job type on the Enrollment Profile that was not reflected on the VB9-554, one ASSIST Security Agreement that needed an employee's signature, and one employee listed on the VB0-554 who did not have an ASSIST Security Agreement on file.

WE RECOMMEND that Antrim County FIA reconcile the PF-011 and the VB9-554 reports to the CIMS and ASSIST Enrollment Profiles and Security Agreements.

Payroll and Timekeeping

Reconciliation of the HR-332A (B) Turnaround Report

6. Antrim County FIA did not reconcile the turnaround HR-332A to the original HR-332A report a week after payroll was run. The Primary Internal Control Criteria for Local/District Office Operations recommends that the local office reconcile the turnaround report to verify that the actual time reported agrees with the time that was originally submitted.

WE RECOMMEND that Antrim County FIA reconcile the turnaround HR-332A report with the original HR-332A report.

NOTE: Corrective action taken while auditor or was on site.

State Emergency Relief

Supporting Documentation for Payments

7. Antrim County FIA did not follow the established procedures for State Emergency Relief (SER) payments submitted to the Fiscal Office for reconciliation with the FIA-849, 93(A) Issuance Report (ES-440). One payment out of 44 reviewed was supported with a copy of the bill, rather than the original, and three payments did not have a bill attached. However, the original bill was located in the case record in all four cases. Accounting Manual Item 404 requires that the original vendor invoice/bill be attached to the Accounting Office copy of the FIA-849. Attaching the original invoice/bill for the amount to be paid to the Fiscal Office copy of the FIA-849 helps prevent duplicate payments and helps to ensure that payments are accurate and appropriate.

WE RECOMMEND Antrim County FIA attach the original invoice/bill to the Fiscal Office copy of the Authorization Invoice (FIA-849).

Kalkaska County FIA Findings

Cash Receipts

Mail Opening

8. Kalkaska County FIA had one person opening the mail. Accounting Manual Items 430 and 431 require that two people work together to open the mail, one opening and one preparing a list of negotiable items received in the mail. Having two people opening the mail will ensure that all checks/warrants on hand are properly recorded on the logs.

WE RECOMMEND that Kalkaska County FIA have two people open the mail and log the negotiables.

Daily Mail Record of Cash Receipts

9. Kalkaska County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in mail. Accounting Manual Item 431 states that an FIA-4729 is to be used to record negotiable received for deposit.

WE RECOMMEND that Kalkaska County FIA record all negotiables for deposit on the FIA-4729.

Safe and Controlled Documents

Items Not Controlled

10. Kalkaska County FIA did not properly control the Gas Gift Cards or Bus Passes. The local office did not prepare a Controlled Document Log (FIA-4070) or a Monthly Inventory Reconciliation (FIA-4351) for the gas cards. In addition, the local office did not have a Controlled Document Log (FIA-4070) for the bus passes.. Accounting Manual Item 403 states that the local office must prepare the FIA-4070 and FIA-4351 for all controlled items. Maintaining an accurate inventory of gift cards and bus passes helps to ensure that all gift cards are properly accounted for.

WE RECOMMEND that Kalkaska County FIA inventory its gas gift cards and bus passes, and keep an up to date Controlled Document Log and Monthly Controlled Document Inventory and Reconciliation for both items.

NOTE: Corrective action taken while auditor was on site

Petty Cash Account

11. Kalkaska County FIA did not properly control the Petty Cash Fund that is maintained at the local office. The local office had a \$25 petty cash account that was not reflected in the General Ledger or the Modified Accrual Basis Balance Sheet. Accounting Manual Item 402-4 states that when petty cash is received by the local office, an entry must be made to record the funds in the Social Welfare Fund, Revenue Account. Recording the petty cash in the accounting records will ensure that funds maintained by the local office are properly accounted for.

WE RECOMMEND that Kalkaska County FIA record the petty cash fund in the social welfare fund, revenue account in accordance with the Accounting Manual.

CIMS/ASSIST/LASR Security

CIMS Security Agreements

12. The Kalkaska County FIA did not have accurate, up-to-date CIMS Security Agreements (FIA-3974A) on file for all employees who access CIMS. Six out of 16 employees who access the Client Information Management System (CIMS) did not have a Security Agreement on file. Accurate, up-to-date Security Agreements are required by L-Letter L-97-063, and are necessary to provide documentation that the worker understands the security requirements for accessing information, and that the supervisor approved the access given to the worker.

WE RECOMMEND that the Kalkaska County FIA ensure that they have accurate, up-to-date CIMS Security Agreements on file for all employees who access CIMS.

ASSIST Security Agreements and Enrollment Profiles

13. Kalkaska County FIA did not have accurate, up-to-date ASSIST Security Agreements (FIA-3721) or ASSIST Enrollment Profiles (FIA-3720) on file for all employees who access ASSIST, as required by L-Letter 97-156. Nine out of 19 employees listed on the VB9-554 Report did not have an ASSIST Security Agreement on file, and two employees did not have an ASSIST Enrollment Profile on file. In addition, the FIM had two job types listed on the VB9-554 report that were not indicated on the FIA-3720. Accurate, up-to-date Security Agreements and Enrollment Profiles are necessary to provide documentation that the worker understands the access they have on ASSIST, and the responsibility associated with that access.

WE RECOMMEND that the Kalkaska County FIA ensure that accurate, up-to-date ASSIST Security Agreements and Enrollment Profiles are on file for all employees who have access to ASSIST.

ASSIST Job Types

14. Kalkaska County FIA had one FIM (Family Independence Manager) who had registration and file maintenance capabilities on ASSIST. This combination of Job Types would allow the FIM to register a case, and do file maintenance on that case. Also, the FIM performs the MA-010 reconciliation of ampersand cases. The FIM reads the cases, attaches the MA-010 to the case read sheet and files it in her office. There is no follow-up of the case readings, nor is there an independent review of transactions performed by the FIM that are reflected on the MA-010 report. Internal Control Criteria page 13 states that no one person should have 240/270/280 and 360 or 370 job types. Assigning staff ASSIST job types that allow them to register and open cases on ASSIST does not allow for the proper separation of duties. Also,

allowing the FIM to process transactions and perform the reconciliation of the MA-010 report, allows the FIM to process transactions with no independent review of the transactions.

WE RECOMMEND that Kalkaska County FIA either assign the FIM Job Types that do not allow registration or file maintenance on ASSIST, or have an independent person reconcile all transactions performed by the FIM, and reconcile the ampersand transactions on the MA-010 report.

PF-011 and VB9-554 Report

15. Kalkaska County FIA did not reconcile the Operator Identification Report (PF-011) to the CIMS Security Agreements (FIA-3974A) or the ASSIST User Report (VB9-554) to the ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721), as required by L-Letter 97-063 and L-Letter L-97-156 respectively. This reconciliation is necessary to ensure that all employees who have access to CIMS and ASSIST are properly authorized for their assigned job types.

WE RECOMMEND that Kalkaska County FIA reconcile the PF-011 and the VB9-554 reports to the CIMS and ASSIST Enrollment Profiles and Security Agreements.

Supplemental Payment-Permanent File

16. Kalkaska County FIA did not maintain a permanent file of supplemental payments by fiscal year in alpha order, instead they attach the Supplemental Payment Authorization (FIA-13) to the MA-010 report and file it in date order. Accounting Manual Item 431 states that a permanent files must be maintained in alpha or case number order. Maintaining the permanent file in alpha or case number order will

allow management to determine how many supplemental payments one client has received in a year.

WE RECOMMEND that Kalkaska County FIA maintain the permanent file of supplemental payments in alpha order by fiscal year.

Off Site Storage of Back Up Tapes

17. Kalkaska County FIA did not maintain off site storage for back up tapes of the local office computer systems. For internal control purposes, maintaining off site storage will ensure that data will not be lost due to fire or water damage.

WE RECOMMEND that Kalkaska County FIA provide off site storage of back up tapes of the computer systems.

Note: Corrective action taken while the auditor was on site.

Payroll and Timekeeping

Reconciliation of the HR-332A (B) Turnaround Report

18. Kalkaska County FIA did not reconcile the turnaround HR-332A to the original HR-332A reports a week after payroll was run. The Primary Internal Control Criteria for Local/District Office Operations recommends that the local office reconcile the turnaround report to verify that the actual time reported agrees with the time that was originally submitted.

WE RECOMMEND that Antrim County FIA reconcile the turnaround HR-332A report with the original HR-332A report.

NOTE: Corrective action taken while auditor or was on site.

Supervisor's Approval of Time and Attendance Reports

19. Kalkaska County FIA did not have a supervisor's signature for one employee's Time and Attendance Reports (FIA-4299), for the two pay periods reviewed. The Primary Internal Control Criteria for Local/District Office Operations recommends that the supervisor approve the employee time and attendance reports, attesting to the accuracy of all reported time.

WE RECOMMEND that Kalkaska County FIA have the supervisor sign all biweekly time reports.

State Emergency Relief

Supporting Documentation for Payments

20. Kalkaska County FIA did not follow the established procedures for State Emergency Relief (SER) payments submitted to the Fiscal Office for reconciliation with the FIA-849, 93(A) Issuance Report (ES-440). Eighteen payments out of 47 reviewed were supported with a copy of the bill instead of an original invoice/bill/fax. Accounting Manual Item 404 requires that the original vendor invoice/bill be attached to the Accounting Office copy of the FIA-849. Attaching the original invoice/bill for the amount to be paid to the Fiscal Office copy of the FIA-849 helps prevent duplicate payments and helps to ensure that payments are accurate and appropriate.

WE RECOMMEND Kalkaska County FIA attach the original invoice/bill to the Fiscal Office copy of the Authorization Invoice (FIA-849) that is used for reconciliation purposes.

Cash Disbursement

Signature Card at the Bank

21. The signature card at the bank for Kalkaska County FIA included a retired supervisor's name. For internal control purposes a current employee who does not have access to the supply of blank checks, and is not involved in the disbursements function, should be assigned the duty of signing checks in the event the check signer is malfunctioning.

WE RECOMMEND that Kalkaska County FIA remove the retired supervisor's name from the signature card on file at the bank.

Sign-O-Meter Log (FIA-4711)

22. Kalkaska County FIA was duplicating effort in recording check numbers issued and the meter reading for the month. The local office was recording the check number and meter reading numbers in the Meter Log Book, and then re-recording these numbers on the FIA-4711 at the end of the month. Accounting Manual Item 410.1 states that the FIA-4711 should be prepared at the time the checks are run through the check signer.

WE RECOMMEND that Kalkaska County FIA prepare only the FIA-4711 for tracking the check numbers issued each month.